

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Fixed Income-  
Home Loan Program Policy

ITEM NUMBER: 4

ATTACHMENT(S): 2

ACTION: X

DATE OF MEETING: November 4, 1998

INFORMATION: \_\_\_\_\_

PRESENTER(S): Ms. Cunningham

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**EXECUTIVE SUMMARY**

One of the 1998/99 objectives approved for the Investment Branch is to revitalize STRS' Home Loan Program (HLP) within the legislative mandates. As a first step in that process, staff presented a Business Plan for the HLP to the Investment Committee in September 1998 which included a plan for accomplishing that objective that involved updating the HLP Policy Manual.

Attachment 1 represents the Home Loan Program Policy Manual which outlines the internally approved policies that are designed to set the boundaries that will ensure the prudence and care in the implementation of the program while allowing sufficient flexibility in developing a program that is competitive. The policies are intended to be static in nature and will be returned to the Investment Committee prior to changes being implemented.

**RECOMMENDATION**

Staff recommends that the Investment Committee approve the Home Loan Program Policy Manual by adopting the attached resolution (Attachment 2)

**California State Teachers' Retirement System  
Home Loan Program Policy Manual**

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**California State Teachers' Retirement System**  
**Home Loan Program Policy Manual**

## **INTRODUCTION**

The California State Teachers' Retirement System (STRS) Mortgage Home Loan Program (HLP) was established in 1984 as the result of legislation that provided STRS with a mortgage-backed investment opportunity as well as an additional source of home financing. Later legislation, referred to as the Dave Elder State Teachers' Retirement System Member Home Loan Program Act, enabled the Teachers' Retirement Board (**Board**) to enter into **correspondent agreements** with private lending institutions to facilitate the implementation of the HLP. Subsequent to the passage of that legislation, in 1986 STRS began making 15 and 30 year fixed interest rate conventional home loans for the refinance or purchase of one to four family owner-occupied properties within the State of California. The most recent legislation, SB 1945 (Karnette), made further changes to the HLP in areas of financing and eligibility.

Following are some of the features of the HLP:

- Competitive **loan rates** on a variety of mortgage loans.
- Highly experienced **correspondent lenders** working with program participants.
- Availability of purchase or refinance plans.

This policy document represents the internally approved policies of STRS' HLP which have been designed to set the boundaries for the management and oversight of the program. A flow chart is included to provide the context for the policies within the general process of implementing the HLP. Words and terms that may be unfamiliar to the reader are highlighted on first occurrence and referenced in the Glossary.

**California State Teachers' Retirement System  
Home Loan Program Policy Manual**

**HOME LOAN PROGRAM POLICY**

**November 1998**

This document outlines the internally approved policies for the management of STRS' HLP. These policies are designed to set the boundaries that will ensure prudence and care in the implementation of the program while allowing sufficient flexibility in developing a program that is competitive.

1. Laws and Statutes - As stated within Section 22360 of the Teacher's Retirement Law, notwithstanding any other provision of law, the Board may, pursuant to Section 22203 and in conformance with its fiduciary duty set forth in Section 22250, enter into correspondent agreements with private lending institutions within California to utilize the retirement fund to invest in residential mortgages, including assisting members, through financing, to obtain homes within the state.
2. Program Objectives - The criteria and terms for STRS' home loans shall be consistent with the financial integrity of the program and the sound investment of the retirement fund.
3. Property Types - Home loans shall be made available to borrowers for single-family dwellings, two-family dwellings, three-family dwellings, four-family dwellings, single-family cooperative apartments, and single-family condominiums.
4. Terms and Conditions - Home loans shall be made available under the following terms and conditions:
  - a) Borrowers shall occupy the homes as their principal residence.
  - b) Home loans shall be secured primarily by the property acquired.
  - c) Home loans shall be available only for the purchase or refinance of homes in the State of California.
  - d) In no event shall the loan amount exceed three hundred fifty thousand dollars (\$350,000).
  - e) **Prepayment penalties** may be assessed on the home loans in accordance with the rules and regulations established by the Board.
5. Loan-to-Value Ratios (LTV) - The terms and conditions shall provide a **loan-to-value ratio** as follows:
  - a) For purchase or refinance of single-family and two-family dwellings, the maximum LTV shall be 95 percent .
  - b) For purchase or refinance of three-family dwellings and four-family dwellings, the maximum LTV shall be 90 percent.

- c) The portion of any loan exceeding 80 percent of value shall be insured by an admitted mortgage guaranty insurer conforming to Chapter 2A (commencing with Section 12640.01) of Part 6 of Division 2 of the Insurance Code, in an amount so that the unguaranteed portion of the loan does not exceed 75 percent of the fair market value of the property.
6. Loan Rates - Loan rates shall be periodically reviewed and adjusted as described within the Procedures and Desk Manuals to provide home loans to borrowers consistent with the financial integrity of the HLP and the sound and prudent investment of the retirement fund. Under no circumstances, however, shall the interest rates offered to borrowers be lower than the market rate.
7. Investment Limitations - The following limits apply with respect to the approval of mortgages within the HLP:
- a) For those loans which conform to **FNMA Guidelines**:
- Investment Officer I - May approve up to \$5 million in loans per day.
  - Investment Officer II - May approve up to \$10 million in loans per day.
  - Investment Officer III - May approve up to \$20 million in loans per day.
  - Director of Fixed Income - May approve up to \$50 million in loans per day.
  - Chief Investment Officer - May approve up to \$100 million in loans per day.
- b) For those loans which are **non-conforming** to FNMA Guidelines:
- Investment Officer I - May approve up to \$1 million in loans per day with a dual review by an Investment Officer II or higher.
  - Investment Officer II - May approve up to \$5 million in loans per day with a dual review.
  - Investment Officer III - May approve up to \$10 million in loans per day with a dual review.
  - Director of Fixed Income - May approve up to \$25 million in loans per day with a dual review.
  - Chief Investment Officer - May approve up to \$100 million in loans per day with a dual review.
8. Authorized Signers - Authorization letters which indicate who may sign on behalf of STRS shall be delivered to the appropriate parties. Whenever a change in authorized signers occurs, the effected parties shall be notified within 24 hours in the event of termination and as soon as possible in the event of a newly authorized signer.
9. Business Plan - The HLP will be managed in accordance with a Business Plan which will be prepared on an annual basis and will describe STRS' goals for the HLP and will include a plan for achieving such goals over the subsequent twelve month period.

10. Delegation of Authority - The implementation of STRS' HLP is delegated to staff within the boundaries established by these policies and the processes outlined in the Procedures Manual.
11. Board Review - The Board shall administer and review this policy periodically as it deems appropriate and in keeping with the investment standard.

**California State Teachers' Retirement System  
Home Loan Program Policy Manual**

## **Glossary**

Board: The California State Teachers' Retirement System Board of trustees.

Correspondent agreement: The contract between a private financial institution that originates and services loans and STRS which describes the respective duties of each party.

Correspondent lender: The private financial institution which originates and services home loans for STRS' borrowers.

FNMA guidelines: The specifications required by the Federal National Mortgage Association (Fannie Mae) in order to be eligible for guarantee as to principal and interest payments. The Federal National Mortgage Association is a private corporation, federally chartered to provide financial products and services that increase the availability and affordability of housing for low-, moderate-, and middle-income Americans.

Loan rate: The cost of using money, expressed as a rate per period of time.

Loan to value ratio: The ratio of the loan amount to the appraised value of the property. Example: A property with a loan of \$80,000 and an appraised value \$100,000 results in a loan to value of 80%.

Non-conforming: A loan not eligible for guarantee as to principal and interest by FNMA or other federally chartered housing agency based upon the borrower's qualifying ratios and/or loan amount.

Prepayment penalty: A monetary penalty assessed against the borrower designed to inhibit the borrower's ability to refinance.

PROPOSED  
RESOLUTION OF THE  
TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

SUBJECT: Home Loan Program Policy

Resolution No. \_\_\_\_\_

WHEREAS, the Investment Committee of the Teachers' Retirement Board is responsible for recommending to the Board, investment policy and overall investment strategy; and

WHEREAS, the Investment Committee has received and reviewed the Home Loan Program Policies and has heard oral presentations from Staff; and

WHEREAS, the Staff has recommended the adoption of the Home Loan Program Policy; Therefore be it

RESOLVED, that the Investment Committee of the Teachers' Retirement Board adopts the Home Loan Program Policies.

Adopted by:  
Investment Committee  
on \_\_\_\_\_

\_\_\_\_\_  
James D. Mosman  
Chief Executive Officer